NYC Tax Lien Securitization Program

A presentation describing the mechanics of NYC’s property tax enforcement program.

October 2015
Program Genesis

- NYCTL program was originally authorized by City Council in 1996. Legislation generally has had a 2-3 year sunset provision.

- Program was developed due to declining property tax collections and the cost of NYC’s In-Rem program, whereby NYC would take title to properties via foreclosure and attempt to rehabilitate and re-sell them.

- According to a NYC commissioned study:
  - City accumulated $2 billion in uncollected liens
  - Property tax delinquency rate had risen to 5%
  - City was collecting only 29% of delinquencies within one year of their creation
  - In-Rem program cost NYC $2.2 million, on average, to dispose of each property and a total of $500 million per year
  - Study concluded In-Rem program took properties off the tax rolls for an average of 19 years
Overview of NYCTL Transaction Structure

How does the program work?

- **Step 1:** NYC notifies delinquent taxpayers via newspapers and letters that a lien on their property will be sold if it is not satisfied. (90-Day Notice, 60-Day Notice, 30-Day Notice, 10-Day Notice)

- **Step 2:** NYC sells their tax liens to a Trust created by NYC. Liens sold to Trust accrue interest at 9% or 18%

- **Step 3:** Rating Agencies examine credit-quality of collateral to determine how much in bonds of various credit classes (Aaa-Baa) the Trust can issue

- **Step 4:** Trust sells bonds to investors to pay NYC a “cash advance” for its purchase of the tax liens

- **Step 5:** Trust hires professional servicer(s) to collect delinquent taxes, including foreclosure management, sale of REO, etc.

- **Step 6:** ALL amounts collected after bonds are retired and Trust expenses satisfied are paid to NYC as owner of the Trust (the “Residual Interest”)
Overview of NYCTL Transaction Structure

Mechanics of a Tax Lien Securitization

NYC → Tax Liens → NYCTL Trust → Cash Collections → Property Owners

- Cash & Ownership Interest in Residual
- Lien Redeemed

NYCTL Trust

Servicer

Bond Proceeds

Capital Markets

Collection Agent of NYC Trust

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Parties to NYC Tax Lien Securitization

- **New York City**
  - Transfers Tax Liens to Issuer Trust (NYCTL Trust)
- **Issuer Trustee**
  - Acts for Issuer Trust
- **Indenture Trustee**
  - Liens Pledged to Indenture Trustee under Indenture
  - Bonds Issued pursuant to Indenture
- **Servicers**
  - Collect Payments From Property Owners and Enforce Tax Liens
Parties to NYC Tax Lien Securitization

- **Program Manager**
  - Assists City in selecting a transaction team
  - Assists City in analysis of the collateral pool, obtaining ratings
  - Post-sale monitoring of servicing

- **Underwriter**
  - Markets and Sells Bonds

- **Bond Counsel**
  - Represents New York City
  - Prepares Securitization Documents

- **Underwriter’s Counsel**
  - Represents Underwriter
  - Prepares Offering Documents
Program Benefits

- Immediate source of **REVENUE**
- Increases current tax collection rate
  - NYC’s collection rate increased from 95% to 98%
- Established standardized and cost efficient enforcement process
- Returns distressed and delinquent properties to the NYC tax roll
- Reduces City’s role as landlord
Summary of Financial Performance of Program

- Since 1996, the NYCTL program has completed twenty-one (21) securitization transactions – securitizing lien pools that contained approximately 82,000 tax liens with an initial redemptive value of $2.1 billion.

- NYC Trusts have issued $1.8 billion in bonds secured by these lien pools and collected $360 mm in residual cash flow from these transactions.

- Lien redemptions and proceeds from foreclosures sales have retired the 19 bond series issued from 1996 – 2013 ($1.6 billion).

- Of the $95 mm in bonds issued in 2014, $74 mm have been paid – with the remaining $21 mm in bonds outstanding secured by $56 mm in outstanding lien collateral.

- NYC recently issued $72 mm in bonds in its 2015 securitization.
Servicer Responsibilities

Choosing a high-quality Servicer is key to maximizing Advance Rate and Residual proceeds to NYC

- Ability to work productively with taxpayers and avoid adverse publicity from collection activities
- Ability to manage foreclosure process in a timely and efficient manner (Control legal expenses)
- Expertise in marketing properties for sale (esp. unique properties)
- Timely and accurate reporting to trustee, bond holders, rating agencies, and NYC
NYC Tax Lien Foreclosures Process

- If a property owner has not voluntarily redeemed their lien or entered into a forbearance agreement with the Trust within one year of the date of sale, the liens are subject to foreclosure.
- NYC tax liens are foreclosed in a judicial process in the same manner as a mortgage in accordance with New York State law.
- Foreclosure process can take 2-3 years to complete (longer if owner contests process or if there are guardian or surrogate court issues).
- Property owner has the right to redeem the lien at any time prior to the court-administered auction of the property.
- Approximately 2-3% of the properties with liens sold in the NYCTL program are ultimately sold to a third party via a foreclosure auction.
NYC Tax Lien Foreclosures Process

- Step 1: Foreclosure complaint is filed in the County where the property is located
- Step 2: Owner and other interested parties are provided legal notice of foreclosure complaint and given the opportunity to present defenses to the Court
- Step 3: Court appoints referee (an attorney) to certify the delinquent amount due
- Step 4: Trust seeks judgment against the property
- Step 5: Court issues final judgment against the property and an auction is scheduled by the referee
- Step 6: Auction is held on the “courthouse steps.” Trust has the right, but not the legal obligation, to bid-in the delinquent tax amount due at the auction.
- Step 7: Highest bidder has the right to take ownership of the property by paying the bid amount to the referee in exchange for a property deed issued by the referee
- Step 8: Trust receives proceeds and lien is released
- Any bid amount in excess of the delinquent tax lien amount owed is distributed by the Court to subordinate lien holders or the owner of the property
Post-Auction Sales

- At a judicial foreclosure auction, the judgment holder has the right, but not the obligation, to bid up to the amount of its judgment in the auction.

- NYCTL Trusts mandate that the Servicer, on its behalf, “bid-in” the full amount of tax liens and subsequent taxes owed on the property at the foreclosure auction to attempt to collect full amount of taxes owed.

- If the foreclosing Trust is the highest bidder, Servicer attempts to remarket the Trust’s winning bid to interested purchasers so that the Trust does not have to take title to the property.

- The Servicer is mandated to follow certain procedures when re-marketing foreclosure bids.